OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 12, 2015

RE: IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN. (DOCKET NO. E-01345A-11-0224)

SUBJECT: APPLICATION FOR APPROVAL OF ANNUAL LOST FIXED COST RECOVERY MECHANISM ADJUSTMENT

Introduction

On January 15, 2015, Arizona Public Service Company ("APS" or "Company") filed an application ("Application") with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") mechanism adjustment effective March 1, 2015. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

APS is requesting that the LFCR charge be re-set from 0.9509 percent to 1.4592 percent of the customer's bill, which would result in an increase of $0.72 per month for a residential customer using the annual average of 1,100 kWh per month. The impact on retail revenues from the new LFCR charge is an overall estimated revenue recovery of approximately $38.5 million for the 12-month collection period beginning in March 2015.

Description of the LFCR

In Decision No. 73183 (May 24, 2012), the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings and DG. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of the distribution costs not recovered by (1) the Basic Service Charge ("BSC") and (2) 50 percent of demand revenues associated with distribution and the base rate portion of transmission.

The LFCR also includes an annual 1 percent year-over-year cap based on Applicable Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase exceeds 1 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1 percent cap. The one-year

Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

The Plan of Administration ("POA") describes how the LFCR operates. By January 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE and DG savings from the preceding calendar year. APS will use actual data through September and forecast data for October through December. Each year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions to verified EE and DG sales reductions in those months. There is also a balancing account that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account is reflected in Schedule 3 (Attachment C, Page 3) of the Application.

In Decision No. 74202 (December 3, 2013), the Commission ordered APS to implement a $0.70 per kW per month (per system installed capacity) interim LFCR DG Adjustment for all residential DG installations after December 31, 2013. APS reports that $78,972.66 was collected in 2014 under the first year of the interim LFCR DG Adjustment.

General Service customers taking service under rate schedules E-32 L, E-32 TOU L, E-34, E-35 and E-36 XL, and metered General Service customers under E-30 and unmetered lighting schedules including E-47, E-58, E-59 and Contract 12, are excluded from the LFCR. In addition, residential customers taking service under rate schedule ECT-2 are also excluded from the LFCR under the terms of Decision No. 74202. Customers taking service under any of these excluded rate schedules are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can opt out of the LFCR adjustment by choosing an optional BSC, which is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. The number of Opt-Out customers is expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism is not applied to residential customers who choose the Opt-Out provision. The LFCR is subject to Commission review at any time but no later than APS's next rate case and if the Commission were to suspend, terminate, or materially modify the LFCR mechanism prior to then without addressing fixed cost erosion, the moratorium for filing a rate case terminates.

Staff Analysis

Staff has reviewed APS's projections used in the calculation of the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the LFCR as approved by the Commission. This calculation is shown in Schedules 1 through 6 (Attachment C) of the Application. According to the calculations, and in accordance with the POA, the LFCR charge would be 1.4592 percent, which would result in recovery of approximately $38.5 million (or a $13.1 million increase according to APS) for the 12-month collection period beginning in March 2015.

The LFCR charge in 2014 was 0.9509 percent of applicable Company revenues. APS proposes to increase the LFCR charge in 2015 to 1.4592 percent of applicable Company revenues, a difference of 0.5083 percent which is less than the one percent year over year cap stipulated in the POA.

In Attachment D of the Application, APS provided bill impact calculations for various rate schedules that are subject to the LFCR. APS has calculated that for the average residential customer (all residential rate schedules), using an average of 1,100 kWh per month, the customer's bill would increase by $0.72 per month.

APS notes that for the period that is the subject of the instant Application, the full revenue per customer decoupling mechanism proposed by APS in its June 1, 2011, rate application would have resulted in a total revenue adjustment of $94 million with an average customer bill impact of 2.95 percent. This would result in an increase of $2.99 per month for a residential customer using the annual average of 1,100 kWh per month. Staff notes that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate. In addition, APS's originally proposed full decoupling mechanism offered no Opt-Out alternative for residential customers.

Staff Recommendation

Based on the above, Staff recommends that an LFCR rate of 1.4592 percent be approved and become effective with the first billing cycle of March 2015.

Steven M. Olea
Director
Utilities Division

SMO:RBL:sms\MAS

ORIGINATOR: Rick Lloyd

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
DOUG LITTLE
Commissioner
TOM FORESE
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA PUBLIC SERVICE COMPANY FOR A HEARING TO DETERMINE THE FAIR VALUE OF THE UTILITY PROPERTY OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	DOCKET NO. E-01345A-11-0224 DECISION NO. ___________ ORDER

Open Meeting
March 2, 2015, and March 3, 2015
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in Arizona.

Introduction

2. On January 15, 2015, APS filed an application ("Application") with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") mechanism adjustment effective March 1, 2015. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per kWh, associated with the amount of energy efficiency ("EE") savings and distributed generation ("DG") that is authorized by the Commission and determined to have occurred.

. . .

3. APS is requesting that the LFCR charge be re-set from 0.9509 percent to 1.4592 percent of the customer's bill, which would result in an increase of $0.72 per month for a residential customer using the annual average of 1,100 kWh per month. The impact on retail revenues from the new LFCR charge is an overall estimated revenue recovery of approximately $38.5 million for the 12-month collection period beginning in March 2015.

Description of the LFCR

4. In Decision No. 73183 (May 24, 2012), the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings and DG. Costs to be recovered through the LFCR include the portion of transmission costs included in base rates and a portion of the distribution costs not recovered by (1) the Basic Service Charge ("BSC") and (2) 50 percent of demand revenues associated with distribution and the base rate portion of transmission.

5. The LFCR also includes an annual 1 percent year-over-year cap based on Applicable Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase exceeds 1 percent of Applicable Company Revenues, any amount in excess of the 1 percent cap will be deferred for collection until the first future adjustment period in which including such costs would not cause the annual increase to exceed the 1 percent cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

6. The Plan of Administration ("POA") describes how the LFCR operates. By January 15 of each year, APS will file its calculation of the annual LFCR adjustment, based on the EE and DG savings from the preceding calendar year. APS will use actual data through September and forecast data for October through December. Each year, a true-up mechanism reconciles the three months of forecasted data of EE and DG sales reductions to verified EE and DG sales reductions in those months. There is also a balancing account that tracks the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account is reflected in Schedule 3 (Attachment C, Page 3) of the Application.

. . .

7. In Decision No. 74202 (December 3, 2013), the Commission ordered APS to implement a $0.70 per kW per month (per system installed capacity) interim LFCR DG Adjustment for all residential DG installations after December 31, 2013. APS reports that $78,972.66 was collected in 2014 under the first year of the interim LFCR DG Adjustment.

8. General Service customers taking service under rate schedules E-32 L, E-32 TOU L, E-34, E-35 and E-36 XL, and metered General Service customers under E-30 and unmetered lighting schedules including E-47, E-58, E-59 and Contract 12, are excluded from the LFCR. In addition, residential customers taking service under rate schedule ECT-2 are also excluded from the LFCR under the terms of Decision No. 74202. Customers taking service under any of these excluded rate schedules are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can opt out of the LFCR adjustment by choosing an optional BSC, which is graduated by kWh monthly usage and is designed to replicate the effects of the LFCR. The number of Opt-Out customers is expressed as the annual average number of customers "Opting-Out" over the Current Period. The LFCR mechanism is not applied to residential customers who choose the Opt-Out provision. The LFCR is subject to Commission review at any time but no later than APS's next rate case and if the Commission were to suspend, terminate, or materially modify the LFCR mechanism prior to then without addressing fixed cost erosion, the moratorium for filing a rate case terminates.

Staff Analysis

9. Staff has reviewed APS's projections used in the calculation of the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the LFCR as approved by the Commission. This calculation is shown in Schedules 1 through 6 (Attachment C) of the Application. According to the calculations, and in accordance with the POA, the LFCR charge would be 1.4592 percent, which would result in recovery of approximately $38.5 million (or a $13.1 million increase according to APS) for the 12-month collection period beginning in March 2015.

10. The LFCR charge in 2014 was 0.9509 percent of applicable company revenues. APS proposes to increase the LFCR charge in 2015 to 1.4592 percent of applicable company revenues, a

difference of 0.5083 percent which is less than the one percent year over year cap stipulated in the POA..

11. In Attachment D of the Application, APS provided bill impact calculations for various rate schedules that are subject to the LFCR. APS has calculated that for the average residential customer (all residential rate schedules), using an average of 1,100 kWh per month, the customer's bill would increase by $0.72 per month.

12. APS notes that for the period that is the subject of the instant Application, the full revenue per customer decoupling mechanism proposed by APS in its June 1, 2011, rate application would have resulted in a total revenue adjustment of $94 million with an average customer bill impact of 2.95 percent. This would result in an increase of $2.99 per month for a residential customer using the annual average of 1,100 kWh per month. Staff notes that under such a fully decoupled mechanism, all customers are considered as a single group for purposes of determining the adjustment rate. In addition, APS's originally proposed full decoupling mechanism offered no Opt-Out alternative for residential customers.

Staff's Recommendation

13. Staff has recommended that an LFCR rate of 1.4592 percent be approved and become effective with the first billing cycle of March 2015.

CONCLUSIONS OF LAW

1. Arizona Public Service Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona constitution.

2. The Commission has jurisdiction over Arizona Public Service Corporation and over the subject matter of the Application.

3. The Commission, having reviewed the Application and Staff's memorandum dated February 12, 2015, concludes that it is in the public interest to approve an LFCR rate of 1.4592 percent.

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ORDER

IT IS THEREFORE ORDERED that an LFCR rate of 1.4592 percent be and hereby is approved for Arizona Public Service Company effective with the first billing cycle of March 2015.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _______day of __________________, 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: ___________________________

DISSENT: ___________________________

SMO:RBL :sms/MAS

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